Annual Report 1987

Agdevco

Agricultural Development
Corporation of Saskatchewan

88-03461/

Letter of Transmittal

To His Honour
The Honourable Fredrick W. Johnson
Lieutenant Governor of the Province of
Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Agricultural Development Corporation of Saskatchewan for the year ending December 31, 1987 including financial statements for the year duly certified by Price Waterhouse and in the form approved by the Treasury Board, all in accordance with the Crown Corporations Act.

I have the honour to be, Sir,

Your obedient servant,

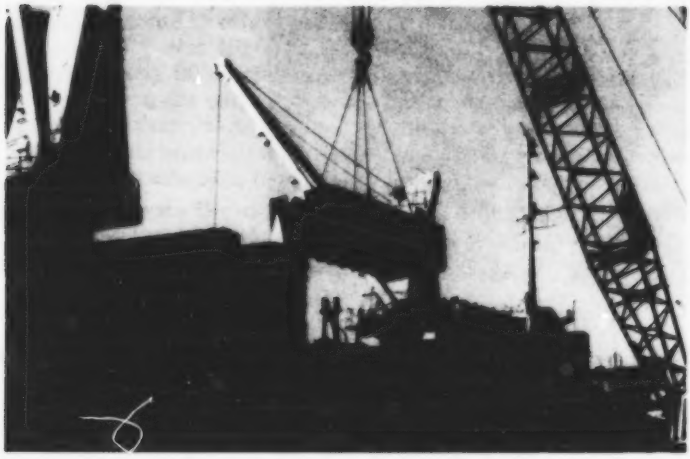
Eric Berntson
Deputy Premier
Chairman of the Agricultural Development
Corporation of Saskatchewan

Honourable Eric Berntson

Board of Directors

Honourable Eric Berntson, Chairman, Regina
Jack Drew, Vice Chairman, Regina
Ken Alger, Meadow Lake
Jake Willms, Dundurn
Ian Disbery, Corporate Secretary, Regina

Sim Sim Mechanized Dryland Farming Project Phase II
Khartoum, Sudan



Loading a container of farm machinery at dockside in Montreal. This was part of a shipment of over $1,000,000 worth of agricultural machinery to the Sim Sim Mechanized Dryland Farming Project in Sudan.

Agricultural Exhibition — Hungary

A Hereford bull supplied by Agdevco was shipped to Hungary with an airplane load of Hereford and Holstein cattle.

Agdevco's exhibit at this International Livestock Show demonstrated the high quality of Saskatchewan cattle to visitors from Hungary and other European countries.

Agdevco's operations in 1987 had mixed results.

The International Division projects continued their rapid expansion, as predicted in 1986. Direct project activities and spin-off benefits to other Saskatchewan suppliers increased substantially over 1986, such that gross sales increased by approximately 96% and the division became the major profit centre within the corporation. As a result, Agdevco is a major Canadian entity in international agricultural development, and this division is expected to continue to expand its operations in the future.

Agdevco's Trade Division operated in difficult trading conditions during 1987 resulting in a loss for the corporation. Income from crops dropped dramatically from 1986 levels due to the industry wide slump in product prices — especially for lentils, while livestock exports also remained at lower levels due to fiscal constraints in our traditional market areas.

Agdevco has continued its thrust into countertrade activities, which is progressing satisfactorily, but somewhat slower than our earlier expectations. With the creation of Agdevco Handelsgesellschaft m.b.H., a wholly-owned subsidiary located in Austria, we are developing our countertrade with Eastern Europe.

A major achievement for the Trade Division on behalf of the Saskatchewan Government in 1987 was the development and signing of a $80 million offset countertrade agreement with Marubeni Corporation of Japan, which will enhance incremental export opportunities for Saskatchewan suppliers.

We expect the Trade Division to perform better in future years as countertrade and other activities come on stream.

Overall, Agdevco's contribution to the Saskatchewan economy in 1987 was significant. With the developments currently being undertaken in our Trade Division, we expect to improve our bottom line, while maximizing Saskatchewan spin-off benefits in future years.

Bruce Hanson.

Bruce Hanson
President

The International Division enjoyed continued growth and development during 1987. Contracts for management of CIDA projects in Lesotho, Zambia, Sudan, Egypt, and China continued. As well, Agdevco is implementing a World Bank Project in Pakistan on a joint venture basis with a prominent Pakistani company.

During 1987, the International Division has entered into joint venture arrangements with other Canadian companies for purposes of bidding on additional CIDA, World Bank, and private commercial projects. One of these joint venture bids was successful and the project is now at the contract negotiation stage.

As a result of this strong international program, Agdevco is now recognized internationally as one of Canada's foremost agricultural consulting and project management companies.

This prominent international profile is enhanced by Agdevco's staff of highly qualified people with extensive international experience, together with a standby roster of over 400 specialists with extensive overseas experience.

Provision of personnel for overseas projects also represents a substantial job market which is largely filled by Saskatchewan experts. This activity has the twofold advantage of increasing Saskatchewan's capability to contribute toward solutions to the problems of the developing world; and secondly, it results in a large salary income with associated growth in economic activity for this province.

Agdevco's current projects add up to 32 years of project work with 16 project years remaining. A total of 26 Canadians are employed full time on these projects and are resident in the host countries, with 10 additional project employees based in Canada. A total of 111 person years of employment are involved with a salary bill of over $6 million.

Farm machinery comprises the largest component of the $9.6 million procurement portion of the contracts. Most of this machinery is procured in Canada. This program, therefore, has obvious spin-off benefits to the Canadian farm machinery industry. In view of the large number of "short-line" manufacturers in Saskatchewan, this program offers potential for market expansion for machinery produced in this province.

The increased acreage of lentils and peas grown in 1987 over 1986, which itself was a record year, provided additional challenges in moving production. Unfortunately, the market place has not been able to absorb the increased lentil production, even at considerably lower prices than growers have received over the past 14 years.

Peas, on the other hand, were well absorbed due to good demands for feed protein in Europe. Growers were able to obtain better than usual returns.

The net result to the corporation was that, although sales volumes were maintained, the total dollar value was down, as was net income.

Compared to lentils and peas, the production and market prices of canaryseed and mustard have been, and are expected to remain, relatively stable.

In 1988, we expect to see a reduction in lentil acreage with improved prices compared with current levels. It is forecast that pea acreage will increase with good continued market demands with lower prices.

In 1987, we concentrated our activities on the identification and development of trade opportunities in new market areas. This effort resulted in first-ever sales of livestock to countries of Western Europe (Italy, Austria).

We gained a substantially larger share of the United Kingdom livestock market, and we expect this trend to continue in 1988.

Despite the difficult financial position of countries in Eastern Europe, we view their longer term potential very favourably and we are continuing market development in this region.

Work on a project in China continued in 1987, and we are certain that it will be successfully concluded in 1988.

The Livestock Division also increased its activities in the consultancy field and in trade of products related to agriculture.

The main thrust in 1987 for countertrade was the development of a distribution network in North America. As part of the first phase in securing countertrade, we are establishing a customer base in textiles, food items and various consumer products. This process will continue in 1988 as more products are made available to Agdevco by our overseas suppliers.

In 1988, the Countertrade Division will be exploring ways to countertrade Saskatchewan and Canadian products with our overseas customers.

In the meantime, Agdevco is working hard to find offsets in Saskatchewan for the export of both products and services to Japan as part of the Marubeni countertrade agreement.

This year was not financially successful for countertrade as a result of the Vienna incorporation, business development, and unforeseen delays in getting product to our distribution network. However, looking forward to the first quarter of 1988, textiles will provide a good return. Food items and consumer products sales are scheduled for the latter part of the year.

We are confident that in 1988, countertrade will be a significant contributor in both revenues and margins.

Auditors' Report

To the Members of the Legislative
Assembly of Saskatchewan

We have examined the consolidated statement of financial position of the Agricultural Development Corporation of Saskatchewan as at December 31, 1987 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants

Regina, Saskatchewan
March 10, 1988

Agricultural Development Corporation of Saskatchewan Consolidated Statement of Financial Position

	December 31 1987	December 31 1986
Assets		
Current assets:		
Cash and short-term deposits	$ 586,129	$ 621,235
Accounts receivable — trade	949,134	1,777,842
— other	433,464	297,801
Inventory	31,584	120,256
Prepaid expenses	16,829	825
	2,017,140	2,817,959
Fixed assets (Note 3)	178,415	135,093
	$2,195,555	$2,953,052
Liabilities and Province's Equity		
Current liabilities:		
Bank indebtedness	$ 635,000	$1,392,890
Accounts payable	680,096	1,156,688
Note payable (Note 5)	1,400,000	—
Current portion of long-term debt (Notes 6 and 7)	31,907	30,078
Advances — international projects (Note 4)	55,868	58,918
	2,802,871	2,638,574
Long-term debt, less current portion (Note 6)	74,375	91,875
Obligations under capital leases, less current portion (Note 7)	26,936	41,474
	2,904,182	2,771,923
Province of Saskatchewan's equity:		
Equity advances (Note 8)	117,473	117,473
Retained earnings (deficit)	(826,100)	63,656
	(708,627)	181,129
	$2,195,555	$2,953,052

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan Consolidated Statement of Operations and Deficit

	Year ended December 31	
	1987	1986
Product sales	$3,653,200	$5,317,561
Commissions and fees (Note 12)	5,712,288	2,914,772
	9,365,488	8,232,333
Cost of product sales and other direct costs (Note 12)	8,591,889	7,391,936
	773,599	840,397
Expenses:		
General and administrative	1,579,431	1,282,057
Interest expense	126,177	12,362
	1,705,608	1,294,419
Loss for the year before other income	932,009	454,022
Other income:		
Grant from Department of Economic Development and Trade	—	88,264
Investment income	4,180	41,400
Miscellaneous	38,073	58,672
	42,253	188,336
Loss for the year	889,756	265,686
Retained earnings at beginning of year	63,656	329,342
Retained earnings (deficit) at end of year	$ (826,100)	$ 63,656

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan
Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1987	1986
Cash provided by (used in) operating activities:		
Loss for the year	$ (889,756)	$ (265,686)
Add items not requiring cash —		
Depreciation	53,943	41,861
Gain on disposal of equipment	(1,774)	—
	(837,587)	(223,825)
Net change in non-cash working capital balances related to operations (Note 13)	287,900	(838,410)
Cash used in operating activities	(549,687)	(1,062,235)
Cash provided by (used in) investment activities:		
Purchase of fixed assets	(99,329)	(35,389)
Proceeds on disposal of fixed assets	3,838	—
Reduction in note receivable	—	145,685
Cash provided by (used in) investment activities	(95,491)	110,296
Cash provided by (used in) financing activities:		
Proceeds of short-term borrowing	1,400,000	—
Assumption of capital lease obligations	—	8,401
Repayment of long-term debt	(17,500)	(17,500)
Repayment of obligations under capital leases	(14,538)	(10,175)
Cash provided by (used in) financing activities	1,367,962	(19,274)
Net cash provided (used) during the year	722,784	(971,213)
Cash position at beginning of year	(771,655)	199,558
Cash position at end of year	$ (48,871)	$ (771,655)
Cash position is comprised of the following:		
Cash and short-term deposits	$ 586,129	$ 621,235
Bank indebtedness	(635,000)	(1,392,890)
	$ (48,871)	$ (771,655)

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan
Notes to The Consolidated Financial Statements
December 31, 1987

1. **Summary of accounting policies:**

This summary of significant accounting policies provides a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation principles —

The consolidated financial statements include the accounts of the corporation's wholly-owned subsidiary, Agdevco International Inc. On July 30, 1987, Agdevco Handelsgesellschaft m.b.H. was incorporated as a wholly-owned subsidiary of Agdevco International Inc. All significant intercompany transactions have been eliminated.

Fixed assets and depreciation —

The fixed assets of the corporation are recorded at cost and are depreciated or amortized on a straight-line basis at the following rates per annum.

Office and other equipment	10%
Machinery and equipment	20%
Computer hardware — owned and leased	20%
Leasehold improvements — Regina	20%
Leasehold improvements — Vienna	10%
Computer software	33⅓%

The costs of maintenance, repairs and minor renewals or replacements are charged to operations as they arise. The cost of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. On retirement or disposition of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the consolidated statement of operations and deficit.

Translation of foreign currencies —

Items included in these consolidated financial statements denominated in foreign currencies have been translated into Canadian currency using the temporal method of foreign currency translation as follows:

i) Monetary items, at the rate prevailing at the year-end date;

ii) Non-monetary items, at the historical exchange rates;

iii) Revenue and expense items, at the average rate for the six months ended December 31, 1987 for Agdevco Handelsgesellschaft m.b.H.; and at provisional rates approximating current rates, adjusted periodically throughout the year for the Agricultural Development Corporation of Saskatchewan and Agdevco International Inc.;

iv) Depreciation and amortization expenses, at the same exchange rates as the assets to which they relate;

v) Gains or losses resulting from these translation adjustments are included in the determination of earnings.

Inventory —

Inventory is valued at the lower of cost and net realizable value.

Revenue-generating activities —

The corporation enters into the following types of revenue-generating activities:

i) The corporation arranges for purchases of agricultural products and other products from various producers and suppliers, locates buyers for the products and then enters into sale agreements with the buyers. These transactions are recorded as product sales and cost of product sales in the consolidated statement of operations and deficit.

ii) In other transactions, the corporation acts as agent, arranging for direct sales between buyers and producers. For rendering this service, the corporation earns commissions and only the commissions on these transactions are included in the consolidated statement of operations and deficit.

iii) The corporation also earns service fees for the management of special projects and the conduct of research studies. These service fees are also reflected in the consolidated statement of operations and deficit.

iv) Agdevco International Inc. earns management fees for the management of certain projects.

Income recognition —

Agdevco International Inc. has a 25% interest in Crescent-Agdevco Joint Venture. In accordance with the Crescent-Agdevco Joint Venture Agreement, the completed contract method is used to account for the income of the joint venture. Consequently, cost and progress payments are capitalized and income is recognized only upon completion of the contract. Agdevco International Inc. accounts for the joint venture on the equity basis. Amounts due from the joint venture, totalling approximately $240,000 (1986 — Nil) are recorded as part of trade accounts receivable.

2. **Status of the corporation:**

Under the authority of an Order in Council, the Saskatchewan Trading Corporation, established in 1974 pursuant to the provisions of The Crown Corporations Act, was continued as the Agricultural Development Corporation of Saskatchewan effective February 1, 1978. The corporation was reconstituted to provide services which facilitate domestic and export trade in Saskatchewan agricultural products and to serve as an agency in contracting for and managing international development projects.

The financial results of the corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

3. **Fixed assets:**

	1987			1986
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Owned assets —				
Office and other equipment	$ 69,756	$ 22,646	$ 47,110	$ 44,992
Machinery and equipment	1,206	121	1,085	—
Computer software	100,181	60,749	39,432	32,588
Computer hardware	47,761	2,371	45,390	2,746
	218,904	85,887	133,017	80,326
Leasehold improvements —				
Regina	9,596	4,478	5,118	7,037
Vienna	7,659	383	7,276	—
Leased assets (Note 7) —				
Computer hardware	73,631	40,627	33,004	47,730
	$309,790	$131,375	$178,415	$135,093

4. **Advances — international projects:**

Under the terms of agreements entered into with the Canadian International Development Agency (CIDA) and Saskatchewan Agriculture, the corporation provides personnel to assist in implementing certain international projects sponsored by the agencies.

Under the terms of the agreements, the corporation assumes the responsibility for the procurement of all project inputs of both an operating and a capital nature. Advance funding is normally provided by the agency and the corporation submits project cost reports on a periodic basis. The corporation is fully compensated for the service it provides to the projects including a service fee as an allowance for administrative overhead costs.

5. **Note payable:**

The note payable to the Department of Finance of the Government of Saskatchewan, bears interest at the rate of 8.75% and is due on March 31, 1988.

6. **Long-term debt:**

Long-term debt consists of a loan from the Crown Investments Corporation of Saskatchewan. The loan bears interest at the prime lending rate minus one-quarter percent. Principal repayments of $17,500 are due on July 31 of each year to 1992. In addition, a final repayment of $4,375 is due at maturity on October 31, 1992.

7. **Obligations under capital leases:**

Future minimum capital lease payments and the balance of the obligations each year are as follows —

	1987	1986
Year ended December 31, 1987	$ —	$19,579
1988	19,474	19,579
1989	19,474	19,579
1990	6,534	6,639
1991	3,837	3,942
1992	700	909
Total minimum lease payments	50,019	70,227
Less: Amount representing interest at 12% - 15½%	8,676	16,175
Present value of obligations	41,343	54,052
Less: Amount due in the next year, included in the current portion of long-term debt	14,407	12,578
Long-term obligations under capital leases	$26,936	$41,474

8. **Equity advances:**

The advances received from the Crown Investments Corporation of Saskatchewan are intended as a long-term equity capitalization for the corporation. The advances are non-interest bearing with no fixed terms of repayment.

9. **Remuneration of directors and officers:**

During the year, the corporation's five directors (1986 — five) received $1,125 (1986 — $1,350) from the Agricultural Development Corporation of Saskatchewan. The six senior officers (1986 — seven) received in aggregate $315,279 in salaries for 1987 (1986 — $299,878).

10. **Related party transactions:**

Included in these consolidated financial statements are various revenue and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms. Other accounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

11. **Contingencies:**

The corporation has guaranteed the repayment of a debt by a customer to Saskatchewan Economic Development Corporation to a maximum of $130,000 if the customer defaults. Should this occur, the corporation would have a claim against the assets of the customer.

A former joint venture partner of Agdevco has commenced an action against the corporation. Because of the preliminary stage in the proceedings, potential liability of Agdevco is indeterminable at this time.

12. **Comparative financial information:**

In 1986, commissions and fees revenue were reported net of related direct costs. In 1987, these figures are recorded at the gross amounts. Accordingly, for comparative purposes, the 1986 amounts have been reclassified to conform with the 1987 consolidated financial statement presentation.

The 1986 comparative figures have been reported upon by other auditors.

13. **Statement of changes in financial position:**

The net change in non-cash working capital balances related to operations is comprised of the following —

	1987	1986
Decrease (increase) in trade accounts receivable	$ 828,708	$(384,024)
(Increase) in other accounts receivable	(135,663)	(279,809)
Decrease in inventory	88,672	83,072
(Increase) in prepaid expenses	(16,004)	(825)
Decrease in note receivable due within one year	—	24,281
(Decrease) in trade accounts payable	(476,592)	(221,838)
(Decrease) in other accounts payable	—	(49,241)
(Decrease) in advances — international projects	(3,050)	(1,762)
(Decrease) in deferred revenue	—	(8,264)
Increase in current portion of long-term debt	1,829	—
Net change in non-cash working capital balances related to operations	$ 287,900	$(838,410)